

OCTOBER, 1974

# SONY CORPORATION



RICHARDSON SECURITIES  
OF  
CANADA



With the assistance of  
THE DAIWA SECURITIES CO., LTD.  
Tokyo, Japan

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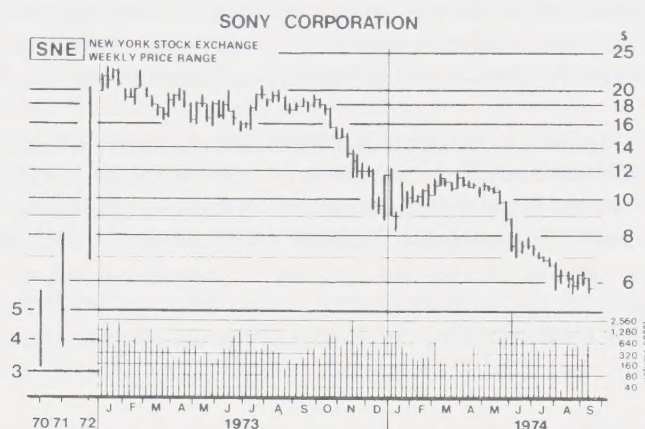
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## SONY CORPORATION

Recent Price Range, \$5.75—\$6.25, New York Stock Exchange

(The shares, in the form of American Depositary Receipts, will be listed on the Toronto, Montreal and Vancouver Stock Exchanges effective October 3, 1974.)



1974		Earnings per Share			P/E Ratio	Indicated	Yield
High	Low	Last 12 Months	1974(E)	1975(E)	(Last 12 Months)	Dividend	
\$12.00	\$5.62	\$0.52	\$0.51	\$0.58	11.3	\$0.04	0.7%

NOTE: All data stated in U.S. dollars, using conversion rate of 300 yen = 1 dollar.  
Fiscal year end is October 31.

### Simplified Capitalization (as at October 31, 1973)

	(millions)	%
Bank Debt	\$ 231	36
Long-Term Debt	4	1
Shareholders' Equity	400	63
	<u>\$ 635</u>	<u>100%</u>

### Operating Data

	Sales	Net Earnings
Fiscal 1973 (millions)	\$1,047	\$84.6
Annual Growth ('68-'73)	34%	39%
Annual Growth ('63-'73)	29%	38%

Book value, \$3.02 per share.  
Return on equity, 23.4%.

Shares Outstanding: 172.5 million versus 132.5 million at fiscal year end. (See Appendix 4.)  
Trading Volume: 1974 monthly average — New York, 2.5 million shares  
— Tokyo, 2.1 million shares

Foreign Ownership: Non-Japanese investors currently own about 40%.  
Voting Control: No associated group owns more than 10%.



## Summary and Recommendation

Sony Corporation is one of the world's foremost manufacturers and marketers of consumer electronic products. The "Sony" brand is recognized for creativity, high quality and reliability. Since its founding in 1946, Sony's growth has been dramatic with annual sales now exceeding \$1 billion.

Sony's success is attributed largely to the Company's technical capability which has been responsible for repeated electronic breakthroughs, particularly in semi-conductors and magnetics. The application of this technology has led to the creation of innovative consumer products. In addition, through an effective managerial approach combining the styles of both traditional Japanese and western businessmen, the Company has developed international markets for its products. (Sony currently derives about half of its business volume from export sales.)

As widely publicized, economic problems are currently affecting almost all nations throughout the world. Sharp escalation in the price of commodities, particularly oil, are contributing to a high rate of world-wide inflation which, in turn, is squeezing discretionary incomes and slowing economic growth. Furthermore, balance of payments difficulties among oil-importing countries are creating nationalistic tendencies and import barriers along with uncertain currency exchange rates. With respect to Japan, that country's real GNP is likely to show no growth in 1974, but by the end of the year recovery should be underway and a gain of 6%—7% in real GNP is forecast for 1975.

Sony earned \$0.51 per share for the year ended October 31, 1973. Despite intense cost pressures and difficult operating circumstances in the current fiscal year, the Company will likely match last year's profit level. (For the nine months ended July 31, 1974, Sony's sales were 30% higher than the comparable period a year ago and earnings per share were \$0.42 versus \$0.41.)

For fiscal 1975, Sony's earnings are expected to rise about 15%. On a longer term basis, the Company should be able to sustain annual growth of this magnitude:

- Sony has embarked upon a programme of international expansion of its manufacturing facilities. Plants in the United States, Great Britain, Korea and Spain were opened during the current year. Other foreign locations, particularly in continental Europe, are under consideration. This multinationalization should provide certain cost economies and minimize the effects of currency fluctuations as well as foreign import restrictions.
- Opportunities exist for Sony to increase its market penetration with existing product lines in both Japan and the United States.
- Sony will place increased emphasis on developing markets where product saturation levels are low and Sony's penetration is still only modest (e.g., Western Europe).
- Sony will continue to develop and introduce new products, including a consumer videoplayer for hook-up with television sets. This product could become a major source of growth to the Company beyond 1976.
- The Company has aggressive and capable management with a proven track record. Sony's two co-founders, Masaru Ibuka and Akio Morita (Chairman and President, respectively), continue to play very important management roles.

In Appendix 5, we provide a statistical comparison of Sony with 25 U.S. "growth" companies. In the period 1970–1973, Sony ranks first in earnings growth, eleventh in sales growth and has the fourth highest return on equity. In a comparison of current price-earnings ratios, Sony's shares are trading at slightly more than half of the average level for these 25 other "growth" companies. Relatively, therefore, Sony's shares appear inexpensive.

From 1970 to 1973, when Sony's profits were growing at close to 40% per annum, the Company's shares traded at an average price-earnings multiple of 29–30 times. This price-earnings level was about twice that for the Dow Jones Industrial Average (DJIA) during the period. In view of higher product saturation, increasing international competition, and a much larger corporate base of comparison, Sony should not be expected to maintain historic growth rates. However, for reasons already outlined, we believe the Company can sustain above-average growth of at least 15% per annum over the foreseeable future. In our opinion, this performance warrants a premium price-earnings multiple of perhaps 1.5 times the price-earnings average for the DJIA. Therefore, assuming a more positive stock market environment, an appropriate price-earnings multiple for the stock should, in our opinion, be 15–20 times.

With Sony shares down 50% from their high price for 1974 and currently trading at only 11–12 times earnings (half that of most major U.S. growth companies), we believe investors are provided with an excellent opportunity to establish long-term positions in one of the world's leading companies.



### **Description of the Shares**

After listing in Canada, Sony Corporation will have its shares traded on 19 stock exchanges in 10 different countries.

Shares traded on the New York Stock Exchange are effected through American Depositary Receipts, known as ADR's. Each ADR evidences one Japanese share of Sony deposited with The Bank of Tokyo in Japan as agent for the depositary, Morgan Guaranty Trust Company of New York.

In Canada, the same set-up will exist. The branch transfer agent is The Royal Trust Company in Toronto, Montreal, and Vancouver and the branch registrar is The National Trust Company in Toronto, Montreal, and Vancouver.

Dividends, which are paid semi-annually, will be payable in U.S. funds, and will be free of U.S. withholding tax but subject to the 15% withholding tax in existence between Canada and Japan.

Capital gains or losses on ADR's are not subject to Japanese tax laws.

Except in special circumstances, holders of ADR's will not be required to comply with formalities applicable to foreign investors who acquire Japanese stocks.

Holders of ADR's are entitled to instruct the depositary as to the exercise of the voting rights pertaining to the number of common shares of Sony represented by their respective American Depositary Receipts.

## The Japanese Economy

The Japanese Government restricted imports into Japan from the end of the Second World War until the 1970's. This allowed Japan's industries to recover, and the country built up a strong trade balance, a strong currency, and became one of the leading growth economies of the world. However, primarily being an exporting country, Japan has been affected materially by the international increase in the price of oil beginning in late 1973. Even if the price of crude oil rises again, the impact will not be as great as was experienced in 1974.

Japan's real GNP is expected to decline 1%–2% in 1974 as a result of the following major disruptive influences:

- rapid rates of inflation in prices and wages
- tight monetary and fiscal policies
- cut-backs in capital investment
- slowdown in consumer spending
- declining industrial production
- rising inventories in manufacturing and mining

The outlook for 1975 is for significant improvement over 1974, with real GNP likely to increase by 6%–7%. Almost all sectors including personal consumption, government spending, housing, and private capital investment are expected to support this growth rate. Based on stronger exports and lower imports, balance of trade is anticipated to rise from about \$0.8 billion to \$3.0–\$5.0 billion for the fiscal year ending March 31, 1975. Consumer durable spending is expected to show an increase next year after this year's sharp drop.

Most important, Japan's extremely high rate of inflation appears to be slowing down. The Organization for Economic Co-operation and Development (OECD) reported that in the twelve months ended July 31, 1974, Japan's rate of inflation was 25.2% but that in the three months ended July 31, 1974, it was similar to other countries that were experiencing between 6% and 12% inflation. For fiscal 1975 (ending March, 1976), wholesale prices are likely to rise about 12%–14% and consumer prices 16%–18%, considerably below 1974 rates.

Japan's longer-term economic growth will continue to depend upon its ability to compete in world markets. Sony Corporation typifies this international competitiveness and, with its programme of multi-nationalized production facilities, will play an important role within the Japanese electronics industry.

## The Japanese Electronics Industry

As a result of the adverse economic environment, the Electronic Industries Association of Japan is forecasting a gain of only 10% in electronic sales in 1974 compared to 20% in 1973. The largest selling electronic products are colour television sets, tape recorders, and hi-fi and stereo components.

Daiwa Securities estimates sales of colour television sets will decline 13% in 1974 to 7.5 million units from 8.7 million, with dollar volume off 9% to \$21.1 million from \$23.3 million (U.S. dollars based on 300 yen equals 1 U.S. dollar). There was very rapid growth in 1973 and Japanese colour TV saturation is now estimated at 90%. For 1975, unit sales are estimated to rise 7% to 8.1 million units and dollar volume 5% to \$22.2 million.

Tape recorder shipments are expected to increase 7% to 34.7 million units in 1974. Hi-fi and stereo component sales should expand 24% to 3.5 million units.

The outlook for Japan's electronics export market is fairly encouraging. For instance, even though U.S. demand for colour TV is likely to record a shortfall in 1974 from 9.3 million units to 9.0 million units, demand in other countries, such as Canada and West Germany, is much stronger than last year.

The following table shows total sales of Japanese colour television sets categorized between domestic sales and exports for both the Japanese industry and Sony Corporation over the five-year period 1969–1973 as well as estimates for 1974 and 1975.

### Japan's Colour Television Sales

(in thousands of units)

Year	Total Sales			Domestic			Export		
	Industry	Sony	% Sony	Industry	Sony	% Sony	Industry*	Sony*	% Sony
1969	4,768	145	3	3,765	100	3	1,003	45	4
1970	5,781	525	9	4,771	375	8	1,010	150	15
1971	7,466	803	11	5,879	494	8	1,587	309	19
1972	8,259	1,220	15	6,410	732	11	1,849	488	26
1973	8,687	1,460	17	6,588	832	13	2,099	628	30
1974	7,500(E)	1,700(E)	23(E)	5,200(E)	925(E)	18(E)	2,300(E)	775(E)	34(E)
1975	8,100(E)	1,875(E)	23(E)	5,700(E)	1,050(E)	18(E)	2,400(E)	825(E)	34(E)

Source: Daiwa Securities America Inc.

#### NOTE:

- \* Industry export figures do not include sets which are manufactured overseas. However, Sony's export numbers include sets which are manufactured in foreign countries (e.g., United States). This lack of direct comparability in data should be noted.



## **Sony Leadership — Research and Development**

Continuous new product development is one of the main reasons for Sony's exceptional operating record (see Appendix 2) and its continued growth at a time when industry unit volumes are declining.

Sony's technological base begins with senior management personnel most of whom have graduate engineering backgrounds. In addition, a very large staff of physicists, chemists, metallurgists and other highly skilled individuals are employed at the Company's research center near Yokohama. In total, Sony allocates about 4% of every sales dollar toward research and development activities — an amount which this year should approach \$50 million.

The following are among the Company's more notable accomplishments:

1950 — commercial introduction of the first magnetic recording tape and tape recorder to Japan.

1957 — marketing of the world's first pocket transistor radio.

1962 — introduction of the world's smallest all-transistor TV receiver.

1965 — marketing the world's first home-use video tape recorder.

1966 — introduction of the world's first integrated circuit radio.

1968 — development of the revolutionary Trinitron colour television picture tube.

1969 — introduction of the U-Matic colour video-cassette system.

1971 — development of the quadraphonic sound system jointly with CBS Inc.

1974 — development of the Mavica (magnetic video card) colour picture recording/playback system.

All of Sony's major product innovations stem from superior knowledge of semi-conductors (transistors, integrated circuits) and magnetics.

## **Product Portfolio**

While technological breakthroughs have been important in advancing Sony's industry position, an effective programme of product combinations has also been instrumental in sustaining the Company's growth by extending the life of maturing products. For instance, as sales of transistor radios began to peak, that product was combined with digital clocks and/or cassette tape recorders to create new lines of merchandise. Similarly, the proposed combination of video-players with colour television sets illustrates this strategy.

The following table breaks down Sony's sales by major product lines over the past five years:

	1969		1970		1971		1972		1973	
	----- (\$ millions) -----									
	Sales	% Total	Sales	% Total	Sales	% Total	Sales	% Total	Sales	% Total
Colour TV	\$ 40	11%	\$119	24%	\$210	32%	\$313	38%	\$ 391	37%
Monochrome TV	\$ 44	12%	\$ 40	8%	\$ 41	6%	\$ 34	4%	\$ 33	3%
Tape Recorders, Radios	\$170	47%	\$179	36%	\$210	32%	\$227	28%	\$ 284	27%
Audio Systems <sup>(1)</sup>	\$ 22	6%	\$ 40	8%	\$ 55	9%	\$ 73	9%	\$ 126	12%
Videotape Recorders	\$ 15	4%	\$ 20	4%	\$ 36	6%	\$ 58	7%	\$ 65	6%
Miscellaneous <sup>(2)</sup>	<u>\$ 72</u>	<u>20%</u>	<u>\$ 99</u>	<u>20%</u>	<u>\$ 95</u>	<u>15%</u>	<u>\$111</u>	<u>14%</u>	<u>\$ 148</u>	<u>14%</u>
TOTAL	\$363	100%	\$497	100%	\$647	100%	\$817	100%	\$1,047	100%

**NOTES:**

- (1) Amplifiers, tuners, speakers and record changers sold either as packaged systems or individual components.
- (2) Includes magnetic tape (more than 5% of total sales), dictating machines, other sundry products and accessories.

Highlighting the speed with which product mix can change is the fact that almost half of Sony's present sales volume is generated by two product lines which were non-existent for the Company in 1965 — colour television and audio systems. These two product areas are expected to lead corporate growth over the next couple of years with the video recorder player becoming an important source of expansion beyond 1976.

**"Trinitron" Colour Television**

Sony was actually a late entrant into the field of colour television because the Company refused to license RCA's delta gun "Shadow Mask" tube, even though all other manufacturers were doing so. This technological pride is, of course, consistent with Sony's philosophy of providing unique consumer products. Nonetheless, the Company's dedicated research paid off with the introduction in 1968 of a patented system which is logically simpler to produce and service than competing systems (one lens, one electron gun). In addition, it provides better picture quality by reducing the distance between electron gun and phosphor screen and thereby minimizing scatter of the beams.

Consumer acceptance of the Sony Trinitron has been overwhelming. Factory shipments last year reached 1.5 million units and this year's unit volume is expected to be about 15% higher. Market penetration is now approximately as follows:

	Approximate Market Size (Millions of Households)	Estimated Colour TV Market Saturation	Estimated Trinitron Market Share
Japan	27	90%	18%
United States	75	76%	6%
Western Europe	100	25%	3%
Canada	6	52%	5%

The most obvious source of future growth for Sony television lies in development of the vast European markets which are potentially as large as the Japanese and American markets combined. While approximately three-out-of-four households in Western Europe own monochrome television sets, less than one-in-four own colour sets. Good colour broadcasting has been established in these countries and the principal barrier to Sony's penetration is the system of import quotas and restrictions which presently exist in all countries, except West Germany. However, this limitation may be overcome as Sony establishes overseas manufacturing facilities (see "Geographic Markets, Multi-National Manufacturing").

In Japan and the United States, where colour TV ownership levels are already very high, the purchase of replacement sets or second sets for the home now account for approximately half of total sales. While this factor should continue to produce some overall expansion in the size of these markets, Sony must rely upon increased market share to gain any appreciable further growth. Such further penetration should be assisted as Sony broadens the range of screen sizes offered. Prior to 1973, the Company only offered screen sizes of 17-inch diagonal measurement or less, and in so doing was participating in only 30%–40% of the total available market.

### Audio Systems, Tape Recorders

Hi-fi components and compact stereo units as well as tape recorders have been, and should continue to be, one of Sony's most rapidly growing product lines. Important factors in assessing their potential are:

- Low product saturation levels (considerably less than in colour television, although reliable industry data by country are difficult to find).
- The principal buying group, 20–35 years of age, will grow much faster than other age sectors of the population.
- Development of a broad range of systems to satisfy both the sophisticated audiophile as well as cost-conscious consumer. Product price ranges vary from \$200 to \$1,000 thereby providing inducement for upgrading after initial purchases.
- Development of new systems such as quadraphonic or four-channel sound which creates a certain amount of product obsolescence and, therefore, new product demand.

### Videotape Recorders

To date, the principal market for videotape recorder equipment has been business/educational. With ten years of experience and more than \$60 million in annual sales, Sony is generally conceded to be one of the world leaders in the field.



However, the home consumer market for a product which both records and replays sound and moving pictures appears to have far greater potential. It would allow families to:

- replay camera pictures on the television screen, with sound included;
- record television programming in one's absence and replay it at a more appropriate time; and
- view specific "canned" programme material in the privacy of one's living room via the television set.

All owners of a TV set are, of course, potential customers.

No manufacturer has yet developed sufficiently simple and inexpensive recording/play-back equipment to attain broad public acceptance. However, Sony appears to be closest with the announcement in May, 1974, of its Magnetic Video Card (Mavica) system which can be produced for the same price as a colour TV. The current drawback to commercial introduction is a very short recording capability (about 10 minutes). With further product refinements to extend length of recording times, Sony should emerge as one of the leaders in the consumer segment of this field, perhaps by 1976. Other potentially competing systems, employing either lazer or phonograph stylus technology, have only playback capabilities.

### **Geographic Markets, Multi-National Manufacturing**

Since making its first export sale in 1955, Sony has developed both domestic and foreign markets with equal vigour so that today both are equally important to the Company.

The following table breaks down the Company's consolidated net sales by major market over the last five years.

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Japan	42%	47%	46%	49%	53%
United States	37%	33%	33%	29%	26%
Europe	7%	8%	9%	11%	11%
Asia (other than Japan)	4%	3%	3%	3%	3%
Others	<u>10%</u>	<u>9%</u>	<u>9%</u>	<u>8%</u>	<u>7%</u>
Total	100%	100%	100%	100%	100%

Prior to 1972, Sony supplied all markets from manufacturing facilities in Japan. However, rapid escalation in land, labour and raw material costs are removing the economic advantage to serving world markets strictly from a Japanese source. In addition, rising feelings of protectionism resulting from weak balance of payments positions in many parts of the world are creating more barriers (quotas, surtaxes, etc.) to foreign imports. Therefore, with the start-up of a colour TV assembly plant in San Diego in mid-1972, Sony embarked upon a programme to locate manufacturing facilities in, or near, major markets. Such multi-nationalization could be the most critical phase in the Company's future development. It could also remove the uncertainties associated with fluctuating currency exchange ratios, delays in shipping, dock strikes, etc.

Effective June, 1974, another plant in San Diego commenced production of colour TV picture tubes, so that Sony now has facilities in the United States capable of producing key colour TV components as well as assembling them. Current rate of output is 25,000 TV sets per

month, up from an initial rate of 5,000 sets per month in 1972. In 1974, these American operations will provide one-seventh of total Sony Trinitron output. Productivity levels are in line with parent company standards in Japan.

Other foreign plants which came on stream this year were:

Country	Product (s)	Sony Ownership
United Kingdom	Colour TV	100%
Korea	Monochrome TV, Radios, Audio Components	49%
Spain	Monochrome TV, Radios, Tape Recorders	50%

Sony is now negotiating to establish a colour TV picture tube manufacturing facility in France. The tubes from such plant would be used for colour TV assembly facilities to be set up in various continental European locations and possibly the new TV assembly plant in Brigend, South Wales.

### Short Run Earnings Outlook

Despite intense cost pressures and a slow world economy, Sony has achieved a marginal increase in profits through the first nine months of the current fiscal year. On a quarterly basis, the performance has been as follows:

Period	Sales		Net Income		Earnings per Share
	(millions)	% Change	(millions)	% Change	
1st Quarter (Jan. 31)	\$368.8	+ 39%	\$36.8	+ 30%	\$0.22 versus \$0.17
2nd Quarter (April 30)	\$280.6	+ 18%	\$11.2	– 36%	\$0.07 versus \$0.11
3rd Quarter (July 31)	\$345.0	+ 31%	\$21.8	Nil	\$0.13 versus \$0.13
Nine months	<u>\$994.4</u>	+ 30%	<u>\$69.8</u>	+ 3%	<u>\$0.42 versus \$0.41</u>

#### NOTE:

- (1) Percentage changes are from comparable period a year earlier.
- (2) Dollar amounts are translated from yen at the rate of 300 yen = 1 U.S. dollar, the Tokyo foreign exchange market rate as of September 12, 1974. This exchange rate is consistent with that used throughout this report. Sony always restates prior period results in accordance with current yen/dollar relationships.

The squeeze on profitability evident in the foregoing table stems principally from the following factors:

- In April, Sony raised wage rates by 35%. (This increase was in line with those granted throughout Japanese industry in the annual “spring labour offensive”.)
- Sony entered the year with only about 3 months raw material inventory on hand. With the Japanese wholesale price index up about 35% this year, the Company has obviously had to replenish stocks at much higher cost.

- The above production cost increases have been too large to offset strictly with gains in productivity. At the same time, however, consumer demand has been too sluggish to absorb higher prices. (In January, Sony did raise domestic prices an average of 10% and export prices by 2%, but these clearly are insufficient to maintain historic profit margins.)

While the Company's manufacturing margin has tightened considerably, the pressure has been partially offset by large sales increases and their accompanying economies vis-a-vis certain fixed cost elements. Export sales have been particularly buoyant, rising 36% in the first three quarters of the year and more than compensating for sluggish Japanese consumer spending. This fact highlights the advantage of a broad geographic marketing base like Sony's. By product line, audio and VTR equipment has been the strongest segment, increasing 38%.

We expect much the same pattern of operation to persist in the final quarter and look for full year profits in the neighbourhood of last year's \$0.51 per share. (It should be noted that there will be 4% more shares outstanding in the last quarter, following an issue of Sony treasury stock in May of this year to Japanese investors.) More detailed operating projections for both 1974 and 1975 are found in Appendix 5.

### **Fiscal Year 1975**

All forecasts must, at this time, be treated with a large degree of reserve given major uncertainties associated with governmental policies, prices of raw material supplies, foreign exchange ratios, etc. Nonetheless, aware of these difficulties, we think Sony should be more able to sustain profit margins in the coming year, particularly if the present trend toward moderation in the rate of inflation were to persist. This would relieve the unusual production cost pressure experienced by the Company in 1974. In turn, it would improve the real disposable income position of consumers and create a more vibrant spending environment.

Also, we note that in 1974 Sony will have invested more than \$100 million in new plant and equipment. This is almost twice the average level of such expenditures for the past five years and undoubtedly has hurt 1974's profits (start-up expenses, etc.). Next year, these new facilities, particularly in the United States and Britain, should become important profit centres. All in all, Sony should be able to resume profitable growth and establish a record level of earnings in 1975, after contending very commendably with a difficult business climate in 1974.

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The following includes the name of every person having an interest either directly or indirectly to the extent of not less than 5% in the capital of:

Richardson Securities of Canada — G. T. Richardson, Senior Partner.

Wood Gundy Limited — C. L. Gundy, C. E. Medland, J. N. Cole, J. R. LeMesurier, J. N. Abell, D. C. H. Stanley, I. S. Steers, R. E. Beale and J. M. G. Scott.



## APPENDIX 1

### MANAGEMENT

There are presently 20 members of Sony's Board of Directors, including Mr. Masaru Ibuka and Mr. Akio Morita, the co-founders of the Company. Listed below are all the Representative Managing Directors, Senior Managing Directors, and Managing Directors of Sony.

Name	Age	Present Occupation	Principal Occupation During Past 5 Years
Masaru Ibuka	66	Chairman, and Representative Managing Director	President, and Representative Managing Director of Sony
Akio Morita	53	President, and Representative Managing Director	Executive Vice-President, and Representative Managing Director of Sony
Kazuo Iwama	55	Deputy President, and Representative Managing Director	Senior Managing Director of Sony
Taketoshi Kodama	53	Senior Managing Director	Senior Managing Director of Sony
Mitsuzo Narita	56	Senior Managing Director	Senior Managing Director of Sony
Noboru Yoshii	62	Senior Managing Director	Senior Managing Director of Sony
Akinori Takasaki	59	Senior Managing Director	Senior Managing Director of Sony
Susumu Yoshida	51	Senior Managing Director	Managing Director of Sony
Norio Ohga	44	Senior Managing Director	President and Director of CBS-Sony Record Co. Ltd.
Heitaro Nakajima	53	Managing Director	Managing Director of Sony
Tetsuro Yotsumoto	49	Managing Director	Managing Director of Sony
Nobutoshi Kihara	48	Managing Director	Director of Sony

## APPENDIX 2

### RECORD OF PERFORMANCE

Few (if any) major corporations have matched Sony's operating performance. Over the past decade not only have sales and profits been doubling every 2 1/2–3 years but the rate of increase has been remarkably consistent as well:

(In Millions of U.S. Dollars, Except Per Share Amounts)<sup>1</sup>

Fiscal Years to October 31	Sales			Earnings		
	Japan	Foreign	Total	Before Tax	Net	Per Share <sup>2</sup>
1964	\$ 54	\$ 57	\$ 111	\$ 9.6	\$ 4.7	\$ 0.03
1965	52	71	123	11.9	5.5	0.04
1966	63	93	156	18.4	9.6	0.06
1967	81	114	195	26.1	14.6	0.10
1968	100	137	237	26.9	15.0	0.10
1969	153	210	363	52.6	28.2	0.18
1970	233	264	497	61.0	34.2	0.22
1971	297	350	647	79.4	41.1	0.26
1972	401	416	817	126.3	66.7	0.42
1973	551	496	1,047	164.7	84.6	0.51
<b>Compound Annual Growth (LSM)</b>						
1963–1973	30%	28%	29%	39%	38%	37%
1968–1973	39%	28%	34%	41%	39%	36%

#### NOTES:

- (1) Translation from yen at the rate of ¥ 300 = \$1.00 U.S.
- (2) Per Share amounts adjusted for all stock distributions.

### APPENDIX 3

#### PERFORMANCE OF 25 U.S. GROWTH COMPANIES

	Average P/E 1970—73 *	Current P/E	Current P/E Versus 1970—73 Average	1970—73 Average Sales	Annual Growth Earnings per Share	Average Return on Equity	Current Price/Book Value
American Home Products	29.8 x	24.9 x	— 16%	11.3%	13.7%	33.8%	8.2 x
AMP	32.8 x	21.3 x	— 35%	23.0%	23.0%	20.1%	4.8 x
Avon Products	47.9 x	9.2 x	— 80%	14.9%	11.1%	33.4%	2.8 x
Burroughs	35.6 x	24.6 x	— 30%	12.6%	20.2%	11.7%	2.9 x
Coca-Cola	36.1 x	18.5 x	— 48%	10.1%	13.5%	24.5%	4.5 x
Digital Equipment	56.2 x	35.7 x	— 36%	25.2%	17.7%	12.3%	3.8 x
Disney	49.1 x	16.5 x	— 66%	32.0%	30.0%	9.1%	1.5 x
Du Pont	17.6 x	9.3 x	— 47%	13.3%	20.5%	13.4%	1.6 x
Eastman Kodak	32.3 x	18.1 x	— 44%	13.2%	17.4%	19.2%	3.8 x
Halliburton	23.5 x	22.0 x	— 6%	26.2%	25.0%	14.6%	3.1 x
Hewlett-Packard	43.5 x	33.9 x	— 22%	22.0%	29.0%	12.4%	5.0 x
IBM	33.0 x	14.8 x	— 55%	13.4%	14.5%	18.1%	2.7 x
Johnson & Johnson	43.4 x	29.2 x	— 32%	17.2%	21.0%	16.3%	5.0 x
Kresge	32.9 x	20.3 x	— 38%	22.0%	27.0%	15.4%	3.0 x
McDonald's	43.1 x	22.3 x	— 48%	43.0%	43.0%	22.0%	4.9 x
Merck	34.9 x	21.6 x	— 38%	13.9%	16.2%	25.3%	5.7 x
Minnesota Mining	31.0 x	19.8 x	— 36%	14.7%	16.3%	18.2%	3.9 x
Polaroid	63.4 x	12.5 x	— 80%	11.7%	—5.4%	10.1%	1.0 x
Proctor & Gamble	24.4 x	20.7 x	— 15%	9.5%	12.5%	17.3%	3.6 x
Schlumberger	30.8 x	32.3 x	+ 4%	16.8%	23.0%	15.0%	5.5 x
Sears, Roebuck	24.1 x	12.8 x	— 46%	10.0%	13.6%	13.4%	1.7 x
Texas Instruments	33.8 x	18.9 x	— 44%	15.9%	41.0%	12.8%	3.4 x
Upjohn	26.8 x	20.7 x	— 22%	17.6%	22.0%	15.4%	4.0 x
Weyerhaeuser	22.4 x	10.6 x	— 52%	23.0%	41.0%	15.9%	2.7 x
Xerox	40.0 x	19.8 x	— 50%	20.0%	17.0%	20.5%	4.0 x
<b>Average</b>	<b>35.5 x</b>	<b>20.4 x</b>	<b>— 42%</b>	<b>18.1%</b>	<b>21.0%</b>	<b>17.6%</b>	<b>3.7 x</b>
<b>Sony</b>	<b>29.3 x</b>	<b>11.0 x</b>	<b>— 62%</b>	<b>18.5%</b>	<b>45.0%</b>	<b>25.3%</b>	<b>2.0 x</b>

#### NOTE:

\* Sony's shares were listed on The New York Stock Exchange from September 17, 1970. Hence, we have limited our comparisons to the period 1970—73 inclusive.



## APPENDIX 4

## CONSOLIDATED BALANCE SHEET

- As at October 31
- All figures in millions of U.S. dollars
- Exchange rate expressed as 300 yen = 1 dollar

[illegible]

NOTE:

\* At October 31, 1973, there were 132.5 million shares outstanding. On May 1, 1974, Sony issued 5.5 million treasury shares through a public offering in Japan for which the Company received about \$67 million. To shareholders of record on May 31, 1974, Sony declared a free distribution of one additional share for each four shares held. As a result, there are now 172.5 million shares outstanding.

## APPENDIX 5

### CONSOLIDATED STATEMENT OF INCOME

- As at October 31
- All figures in millions of U.S. dollars
- Exchange rate expressed at 300 yen = U.S. \$1.00

	Actual		Estimate	
	1972	1973	1974	1975
Sales:				
— Domestic	\$ 401	\$ 551	\$ 665	\$ 810
— Export	416	496	675	770
Total	<u>\$ 817</u>	<u>\$1,047</u>	<u>\$1,340</u>	<u>\$1,580</u>
Other Income	27	33	42	45
Total Income	<u>\$ 844</u>	<u>\$1,080</u>	<u>\$1,382</u>	<u>\$1,625</u>
Expenses:				
— Cost of Sales	\$ 512	\$ 645	\$ 858	
— Selling, General, Admin.	187	246	313	
— Interest	14	18	27	
— Other	5	6	12	
Total	<u>\$ 718</u>	<u>\$ 915</u>	<u>\$1,210</u>	<u>\$1,425</u>
Pre-tax Income	\$ 126	\$ 165	\$ 172	\$ 200
Income Taxes:				
— Current	\$ 75	\$ 91	\$ 97	
— Deferred	(12)	( 9)	(11)	
Total	<u>\$ 63</u>	<u>\$ 82</u>	<u>\$ 86</u>	<u>\$ 100</u>
After-tax Income	\$ 63	\$ 83	\$ 86	\$ 100
Equity in Affiliates' Earnings	\$ 3	\$ 2	Nil	Nil
Net Income	<u>\$ 66</u>	<u>\$ 85</u>	<u>\$ 86</u>	<u>\$ 100</u>
— Per Share	\$0.42	\$0.51	\$0.51	\$0.58
Average Shares Outstanding (in millions)	157.0	166.5	169.0	172.5





# SONY

## CONSOLIDATED FINANCIAL SUMMARY

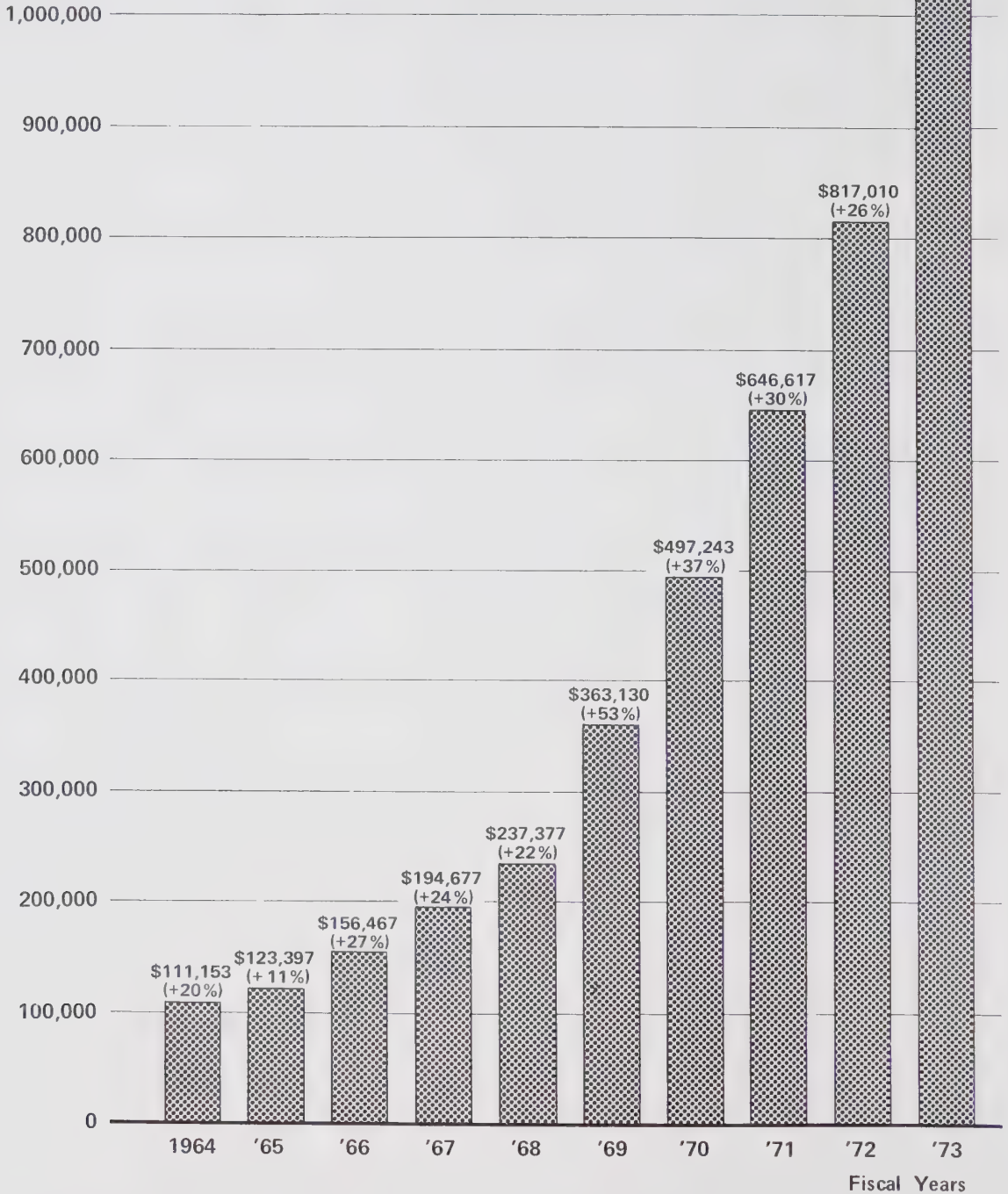
NET SALES .....	1
SALES BREAKDOWN (Markets) .....	2
SALES BREAKDOWN (Products) .....	3
NET INCOME .....	4
EARNINGS PER ADS .....	5
SHAREHOLDERS' EQUITY .....	6
CAPITAL STOCK .....	7
NUMBER OF EMPLOYEES .....	8
PRINCIPAL CONSOLIDATED SUBSIDIARIES .....	9
HISTORY OF SONY .....	10

### Notes:

1. U.S. dollar amounts are translated from yen at the rate of ¥300=U.S. \$1, the Tokyo foreign exchange market rate as of January 18, 1974. U.S. dollar amounts previously reported for prior fiscal years have been restated using the same rate as used in the current fiscal year.
2. Commencing with fiscal 1973, the company adopted the equity method of accounting for investments in unconsolidated subsidiary companies and 20% to 50% owned affiliated companies; previously such investments were carried at cost. Comparative amounts for prior fiscal years have been restated.

# NET SALES

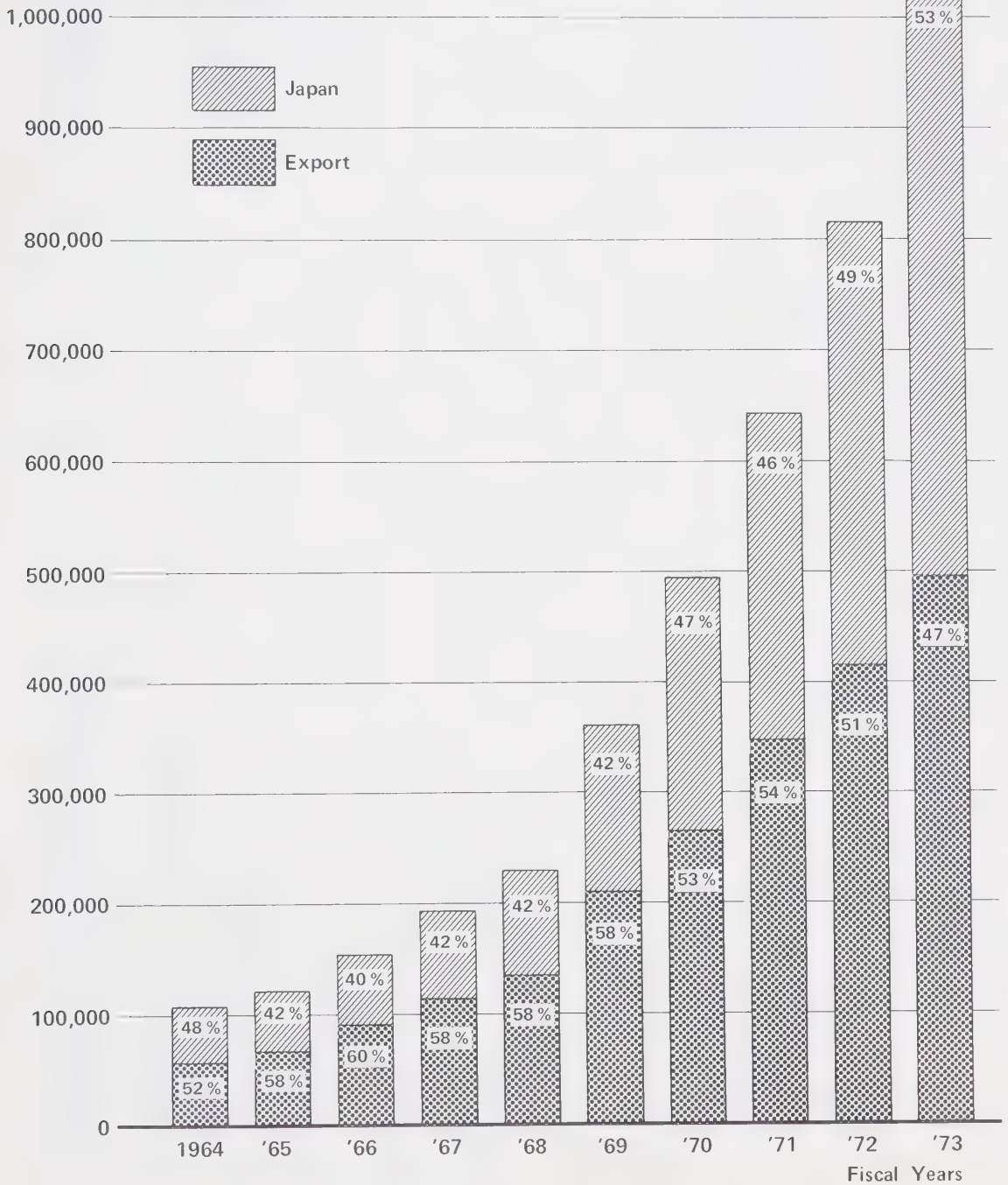
Thousands of U.S. Dollars



# SALES BREAKDOWN

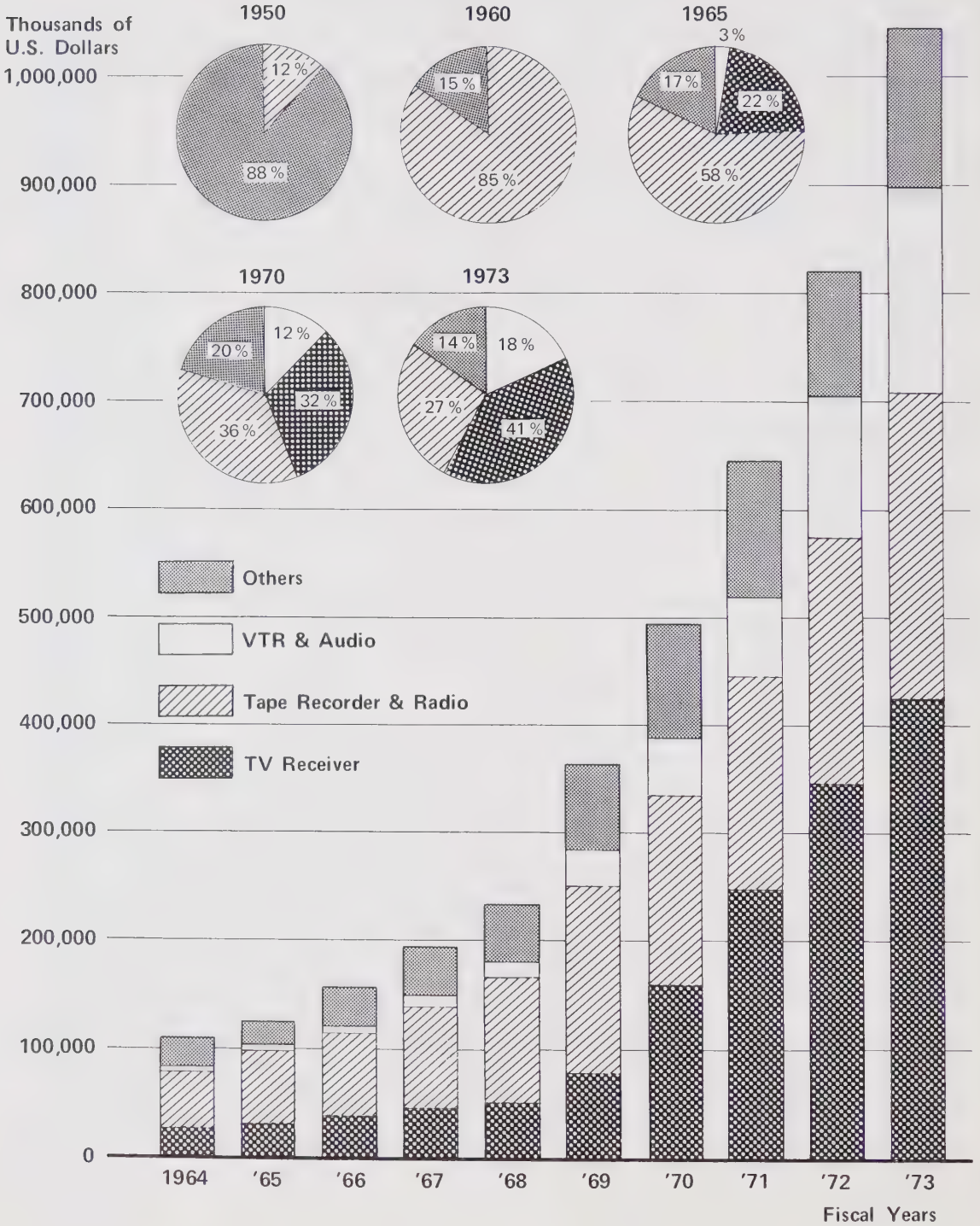
## ( Markets )

Thousands of U.S. Dollars



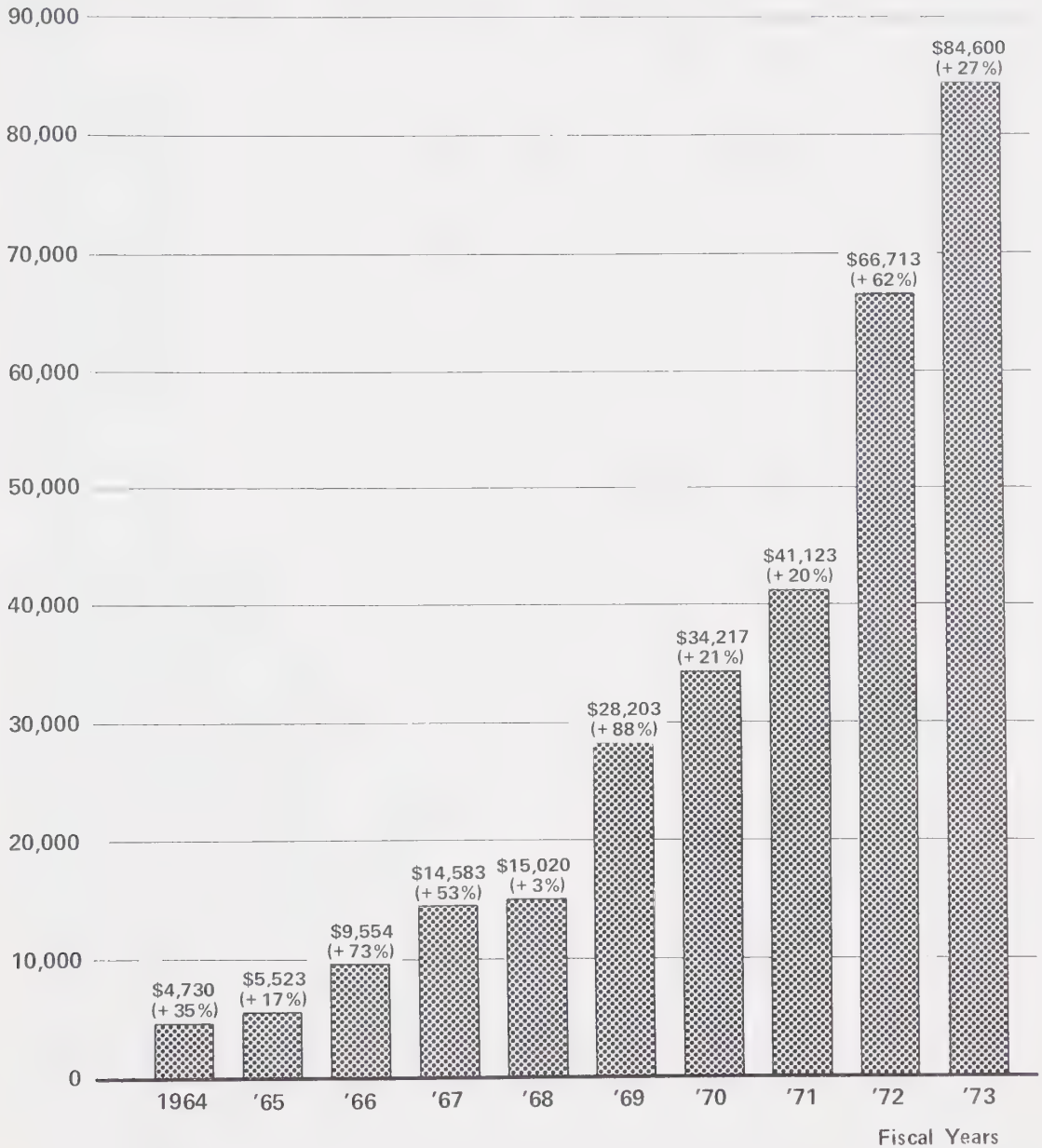


# SALES BREAKDOWN (Products)



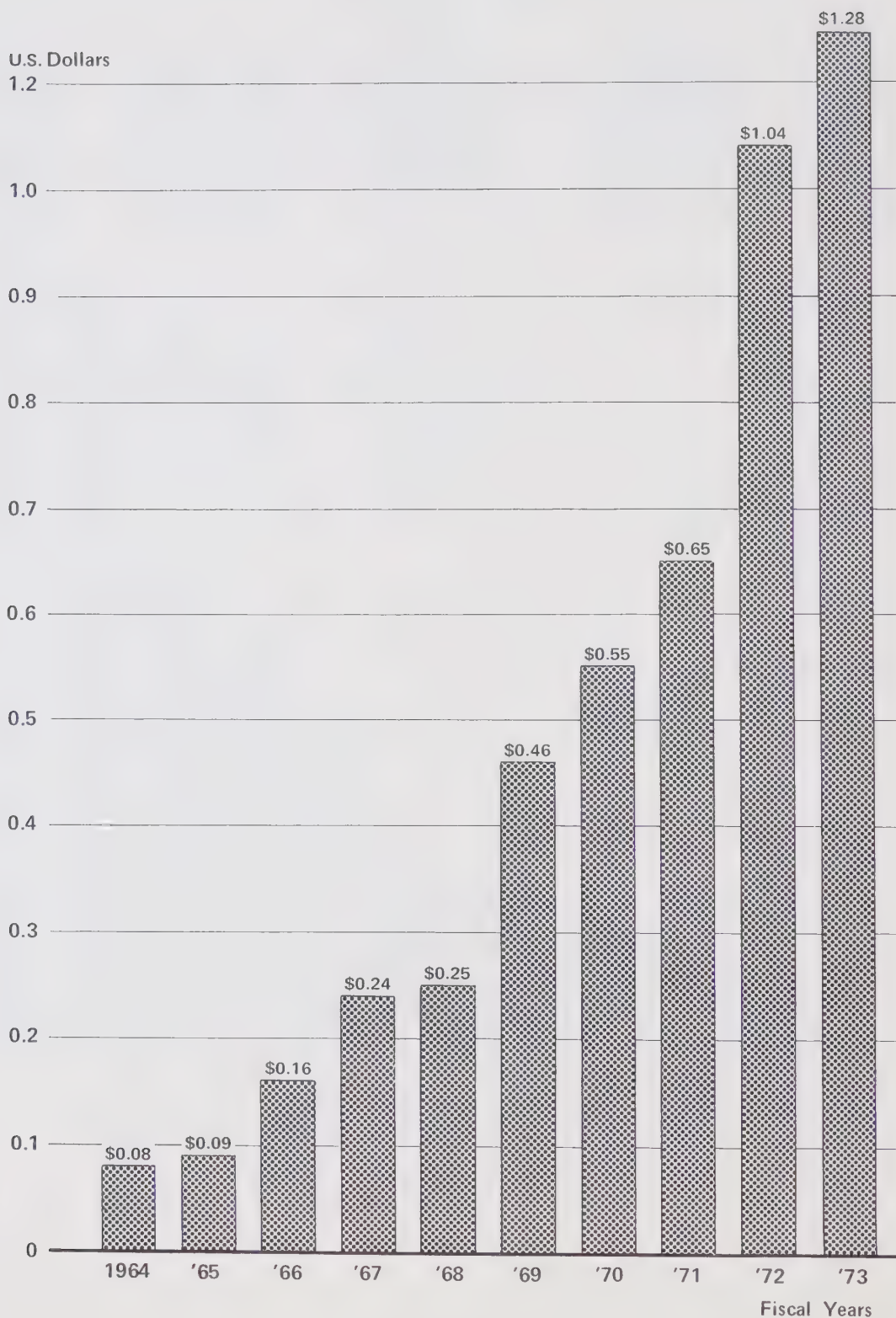
# NET INCOME

Thousands of U.S. Dollars



# EARNINGS PER ADS

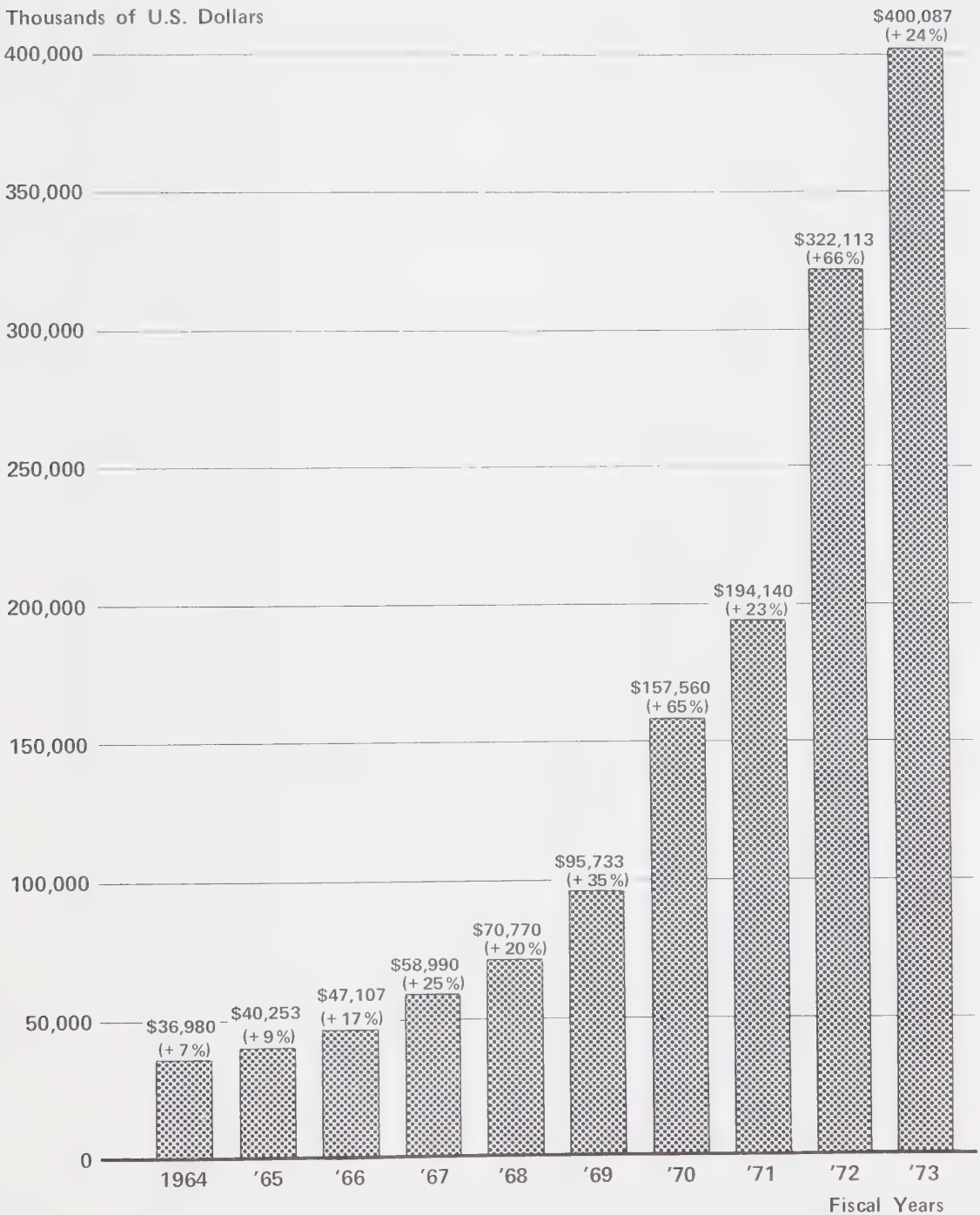
EACH ADS REPRESENTS 2 SHARES OF COMMON STOCK





# SHAREHOLDERS' EQUITY

Thousands of U.S. Dollars





# CAPITAL STOCK

Thousands of U.S. Dollars

20,000

15,000

10,000

5,000

0

1964

'65

'66

'67

'68

'69

'70

'71

'72

'73

Fiscal Years

\$9,000

\$10,800

\$13,460

\$16,825

\$17,667

\$22,083

## Free distribution:

May 1, 1961 — 10%  
May 1, 1963 — 20%  
Nov. 1, 1967 — 20%  
Nov. 1, 1969 — 20%  
May 1, 1971 — 25%  
Nov. 1, 1972 — 25%

## Dividend increase:

20% increase from Nov. 1, 1965

## Public offering:

Jun. 15, 1961 — 2 million shares in the U.S.  
Apr. 9, 1963 — 3 million shares in the U.S.  
May 1, 1970 — 3 million shares in Japan  
Jun. 1, 1972 — 5.05 million shares in Japan

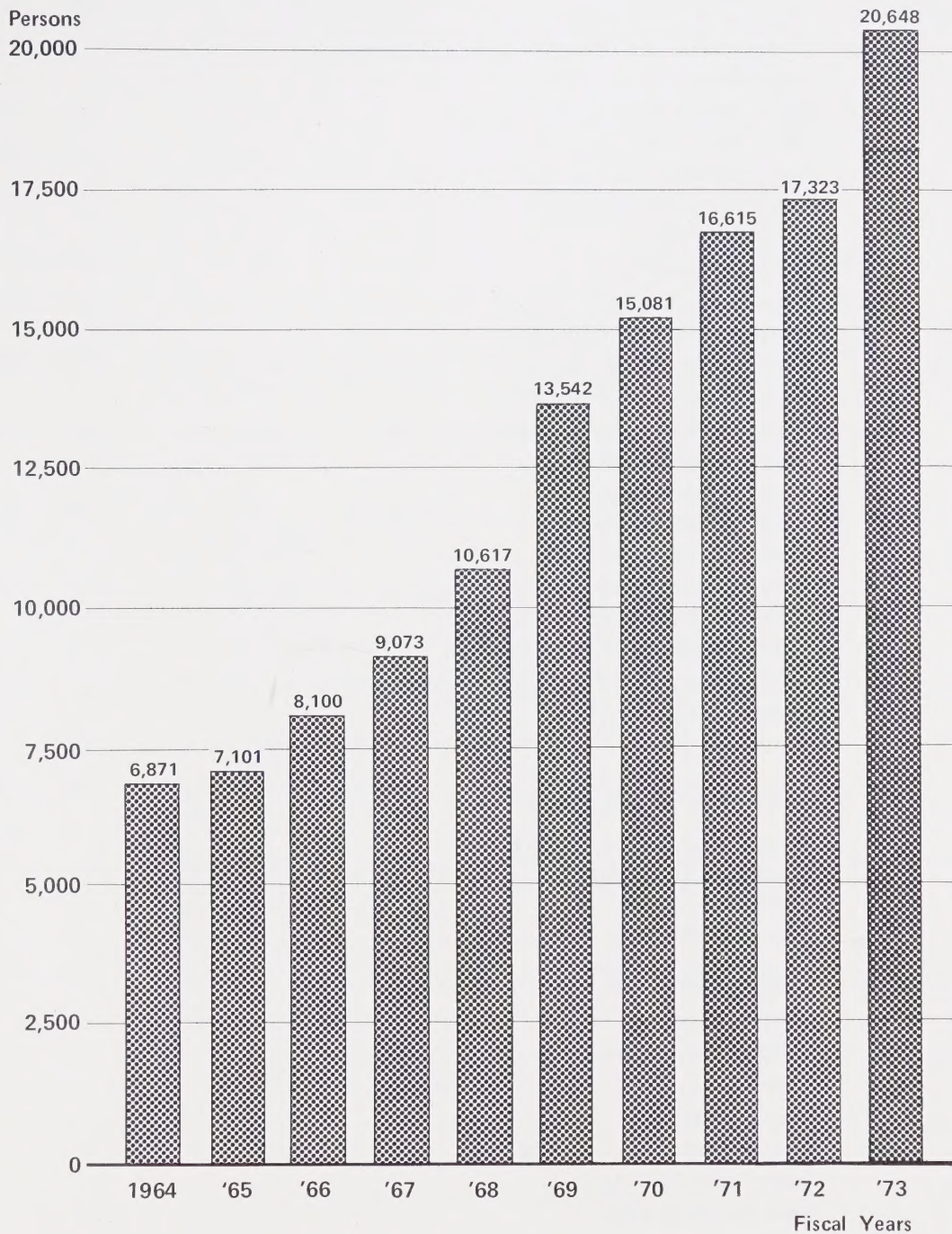
Total shares outstanding (as of Oct. 31, 1973) — 132.5 million shares

Total shares issued by free distribution — 81.25 million shares  
(61.32% of total shares outstanding)

The company's securities are listed on the following overseas stock exchanges:

New York (from Sep. 17, 1970)	Paris (from Sep. 26, 1972)
London (from Oct. 5, 1970)	Frankfurt (from Oct. 11, 1972)
Amsterdam (from Oct. 14, 1970)	Duesseldorf (from Oct. 11, 1972)
Pacific (from Jun. 17, 1971)	Brussels (from Oct. 8, 1973)
Hong Kong (from Aug. 24, 1971)	Antwerp (from Oct. 8, 1973)

# NUMBER OF EMPLOYEES





# PRINCIPAL CONSOLIDATED SUBSIDIARIES

## JAPAN

Sony Shoji Co., Ltd.

Owned by Sony Shoji Co., Ltd.

Sony International Housewares Corporation

Sony Enterprise Co., Ltd.

Sony Warehouse Co., Ltd.

Sony Service Co., Ltd.

Sony Chemicals Corporation

Sony Electronics Corporation

Sony Audio Inc.

Sony Magnescale Inc.

Sony Shiroishi Semi Conductor Inc.

Sony System Sales Corporation

Sony Corporation of Sendai

Sony Corporation of Inazawa

Sony Corporation of Ichinomiya

Sony Corporation of Haneda

Sound System Corporation

Sony Trading Corporation

Audio System Corporation

Sony Corporation of Kohda

Motomiya Electronics Corporation

Tohkai Electronics Corporation

Sony Kokubu Semi Conductor Corporation

Ishikawa Radio Co., Ltd.

Taron Co., Ltd.

## FOREIGN COUNTRIES

Sony Corporation of America

Owned by Sony Corporation of America

Sony of Canada Ltd.

Sony Overseas S.A.

Owned by Sony Overseas S.A.

Sony (U.K.) Ltd.

Sony G.m.b.H.

Sony Distribution Centre (Europe) B.V.

Sony Corporation of Hong Kong Ltd.

Sony Hawaii Inc.

Sony Corporation of Panama S.A.

Sony Puerto Rico Inc.

Sony do Brasil Ltda.

# HISTORY OF SONY

1946	May	Tokyo Tsushin Kogyo K.K. (Tokyo Telecommunications Engineering Corporation) was formally incorporated by Mr. M. Ibuka and Mr. A. Morita Paid-up capital: \$633
1950	Aug.	Marketed the first magnetic recording tape and tape recorder in Japan
1954	May	First successful production of transistors in Japan
1955	Aug.	Marketed the first all transistor radio in Japan
1958	Jan.	Adopted the trade name SONY for its corporate name: Sony Corporation
1959	Dec.	Introduced the world's first, all transistor direct-view 8" TV receiver
1961	Jun.	Publicly offered 2 million shares of Sony Common Stock in the form of ADR in the United States: the first stock offering by a Japanese company in the U.S.A.
1962	Apr.	Introduced the world's smallest light-weight all transistor 5" micro TV receiver
1963	Mar.	Introduced the world's first all transistor portable video tape recorder for industrial use
1964	Nov.	Introduced the world's first home-use all transistor video tape recorder
1966	Sep.	Introduced the world's first integrated circuit (IC) radio
1968	Apr.	Developed a new color TV picture tube, the Trinitron system
1969	Oct.	Announced the Sony color videocassette system
1970	Sep.	Became the first Japanese company to be listed on the New York Stock Exchange
1971	Jun.	Developed the compatible stereo quadraphonic abbreviated "SQ" sound system jointly with CBS Inc.
1972	Jan.	Announced a new color video projection system
	Apr.	Marketed the world's first 114-degree wide angle deflection Trinitron color TV set
1973	Jul.	Developed a 25.2" Trinitron color picture tube (visual screen size) with a deflection angle of 114 degrees.
	Jul.	Developed super wide angle deflection Trinitron color picture tubes of 120 degrees and 122 degrees.
	Oct.	Developed a high power field effect transistor



**SONY**  
Sony Corporation